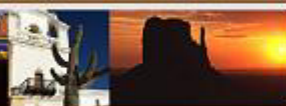




Arizona Economic Forecast

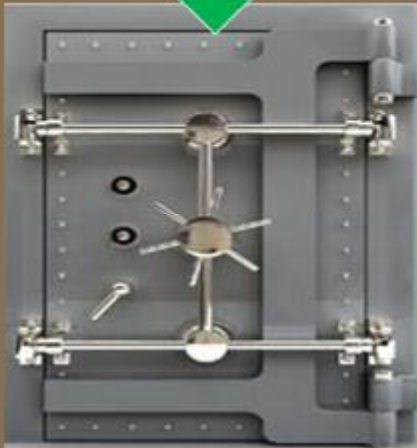
September 24, 2008

*Office of the Arizona State Treasurer
Treasurer Dean Martin*



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OFFICE OF THE ARIZONA STATE TREASURER



*All state funds must be
deposited at
Treasurer's Office*

FY 08 total was:

\$39.10 Billion



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Daily Revenue



State Spending

Invested



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Inside the Trading Room A Day In the Life...



- Last Business Day 2006 \$2.3 Billion in cash
- Example of one trade of over 300 trades executed
 - Out to bid for overnight repo (loan collateralized by US Treasuries)
 - 12/29/06 to mature on 1/2/07
 - The bid winner sent us \$2.346 Billion in US Treasuries
 - 1/2/07 received \$2.3 Billion back
 - We were paid \$1.3 million in interest!



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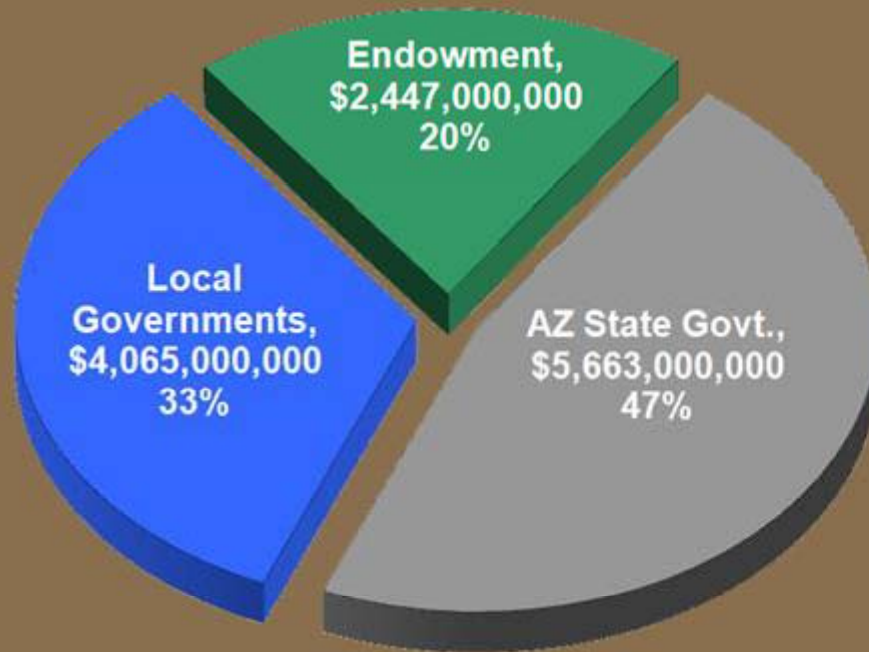
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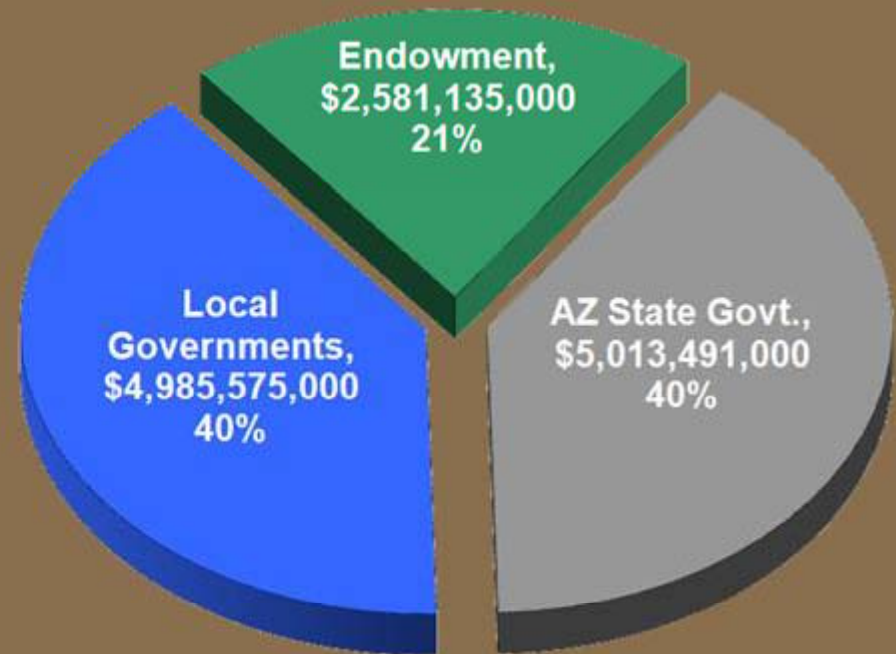


Assets Under Management (market value)

June 2007 - \$12.17 Billion



June 2008 - \$12.58 Billion



\$1 Billion in additional Voluntary Investments!



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Our Investment Philosophy

SAFETY
before
LIQUIDITY
before
YIELD



Treasurer's FY 08 Performance

Operating Revenue to the State of Arizona
State Agencies, Endowment and LGIP Clients

Fiscal Year 2008 Earnings Distributed:

\$502,385,363

vs. FY07

\$484,148,689

UP 3.8%



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Economic Outlook



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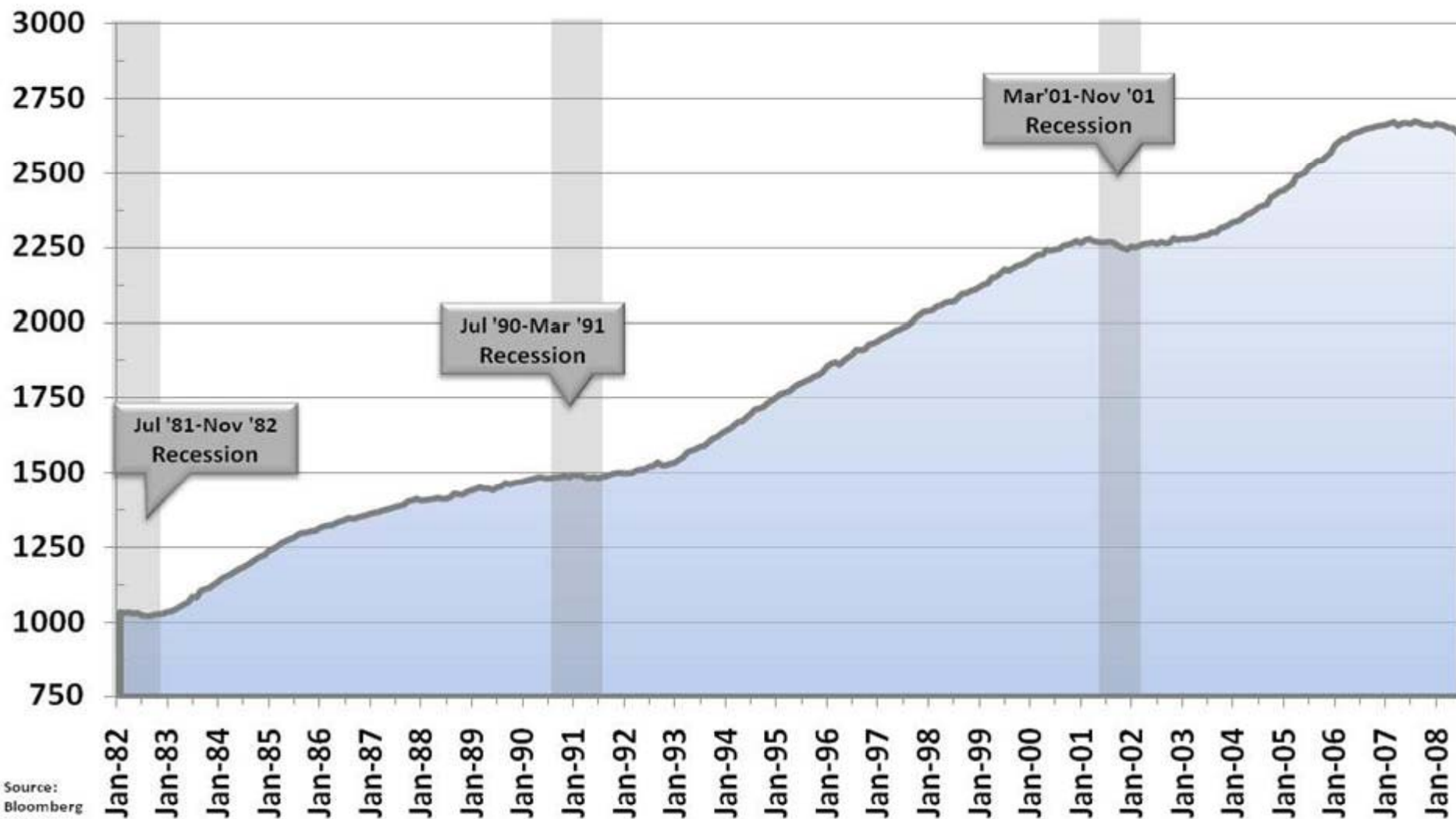
Pg 8

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Arizona Job Growth Faltering

Non-Farm Employment



Source:
Bloomberg
2008 L.P.



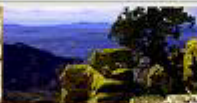
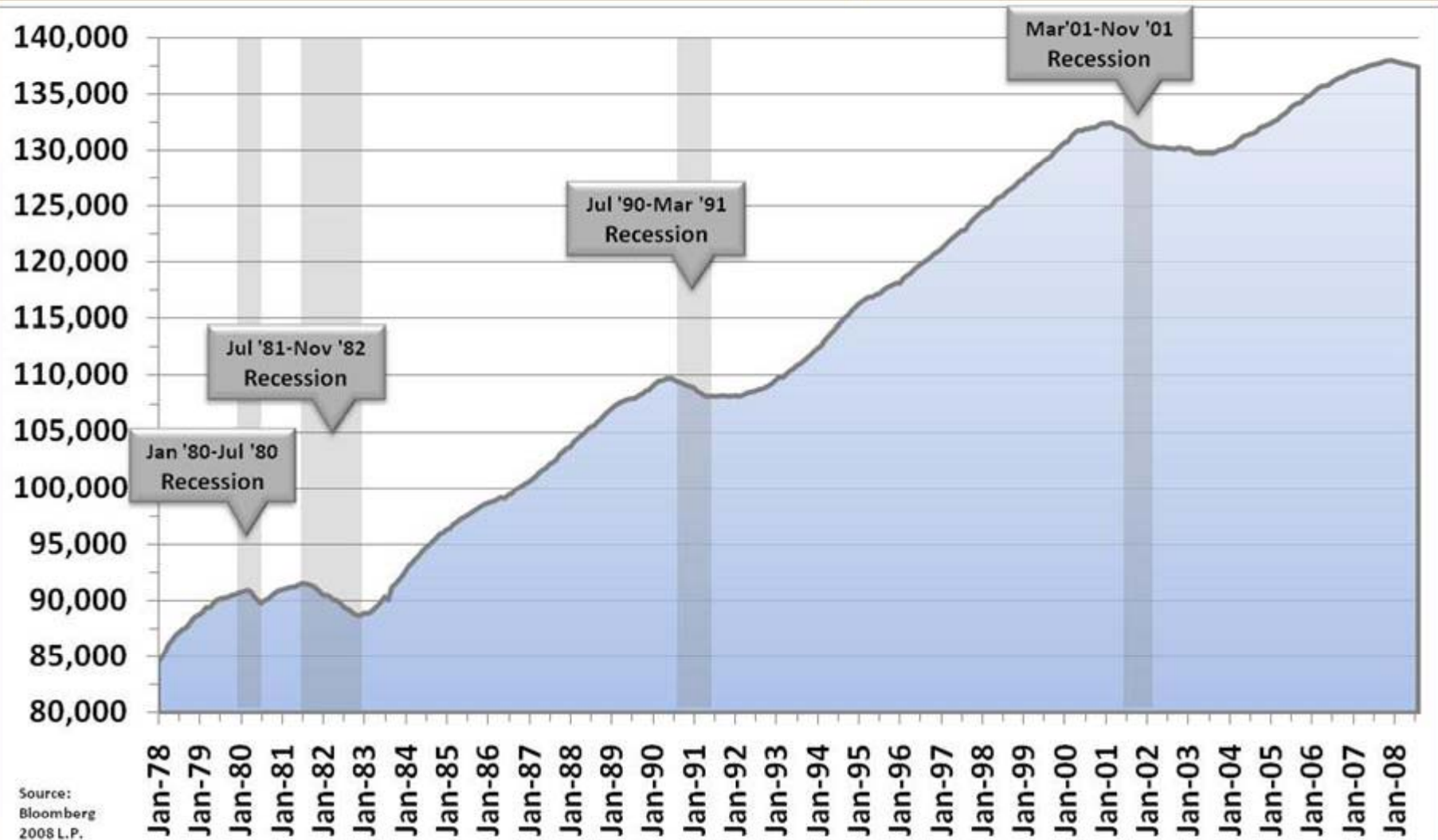
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National Job Growth dips

U.S. Non-Farm Payrolls

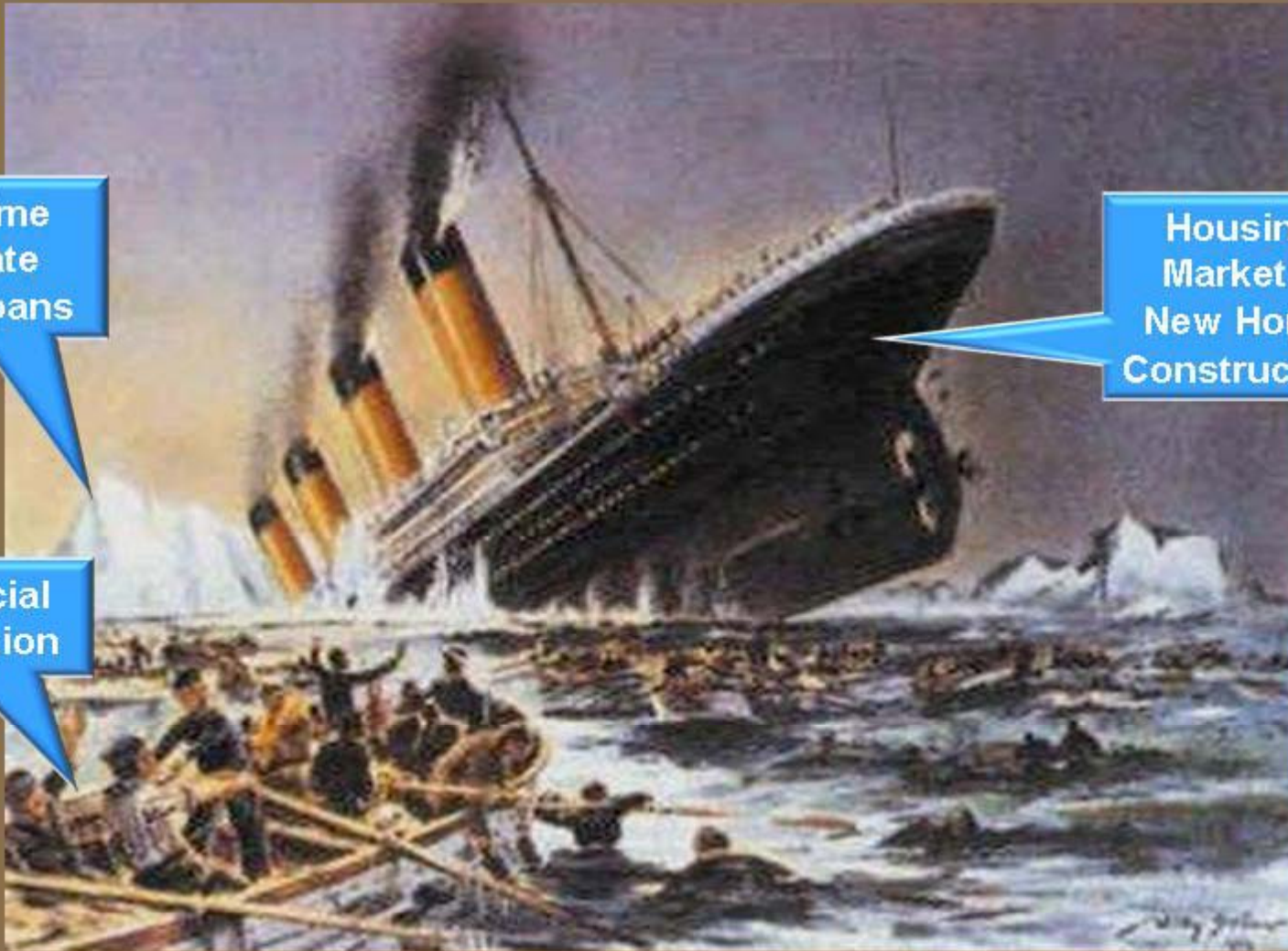


Housing & Construction Outlook

Sub-prime
High-rate
NINJA Loans

Housing
Market &
New Home
Construction

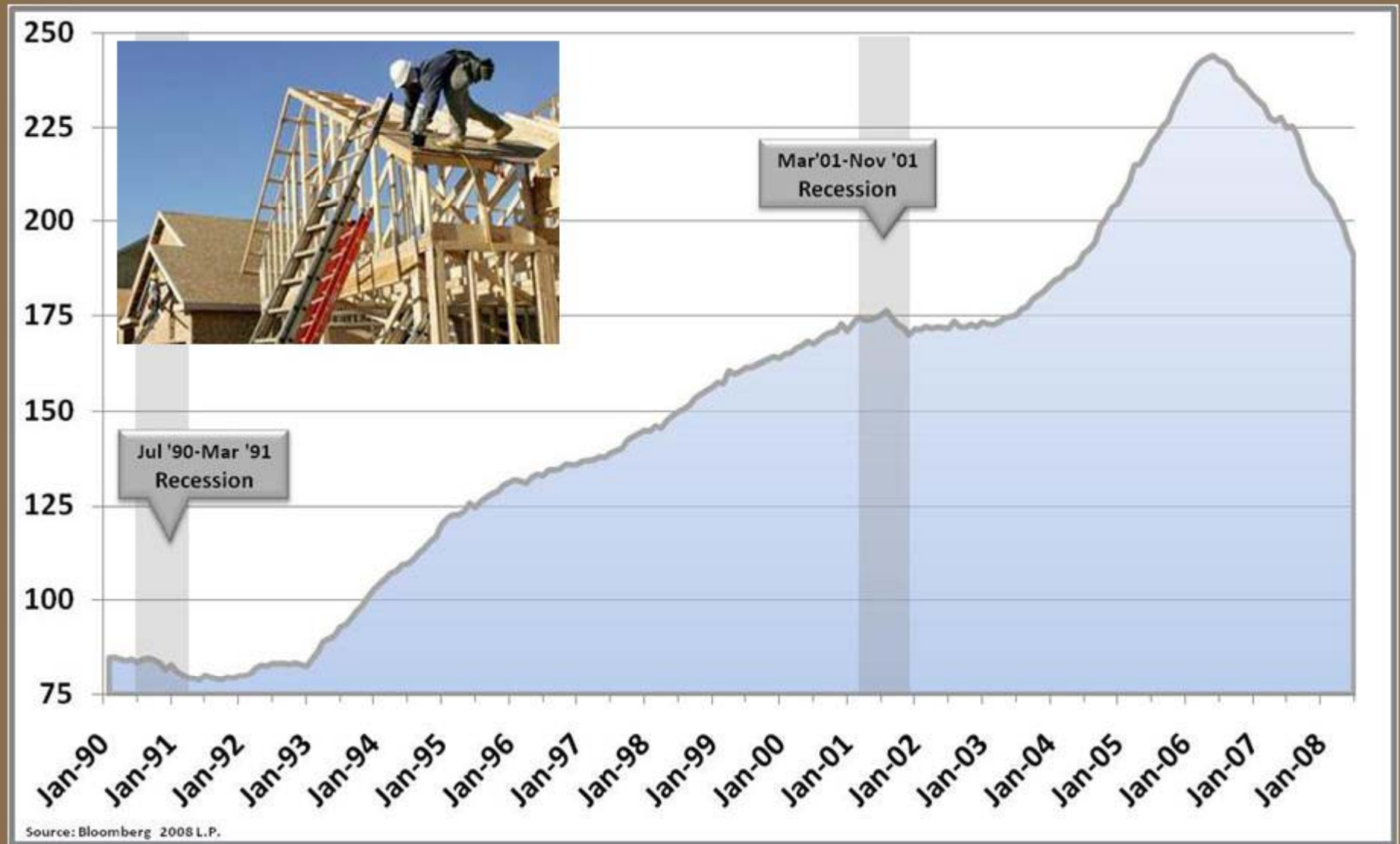
Commercial
Construction



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AZ Construction Employment Still Dropping



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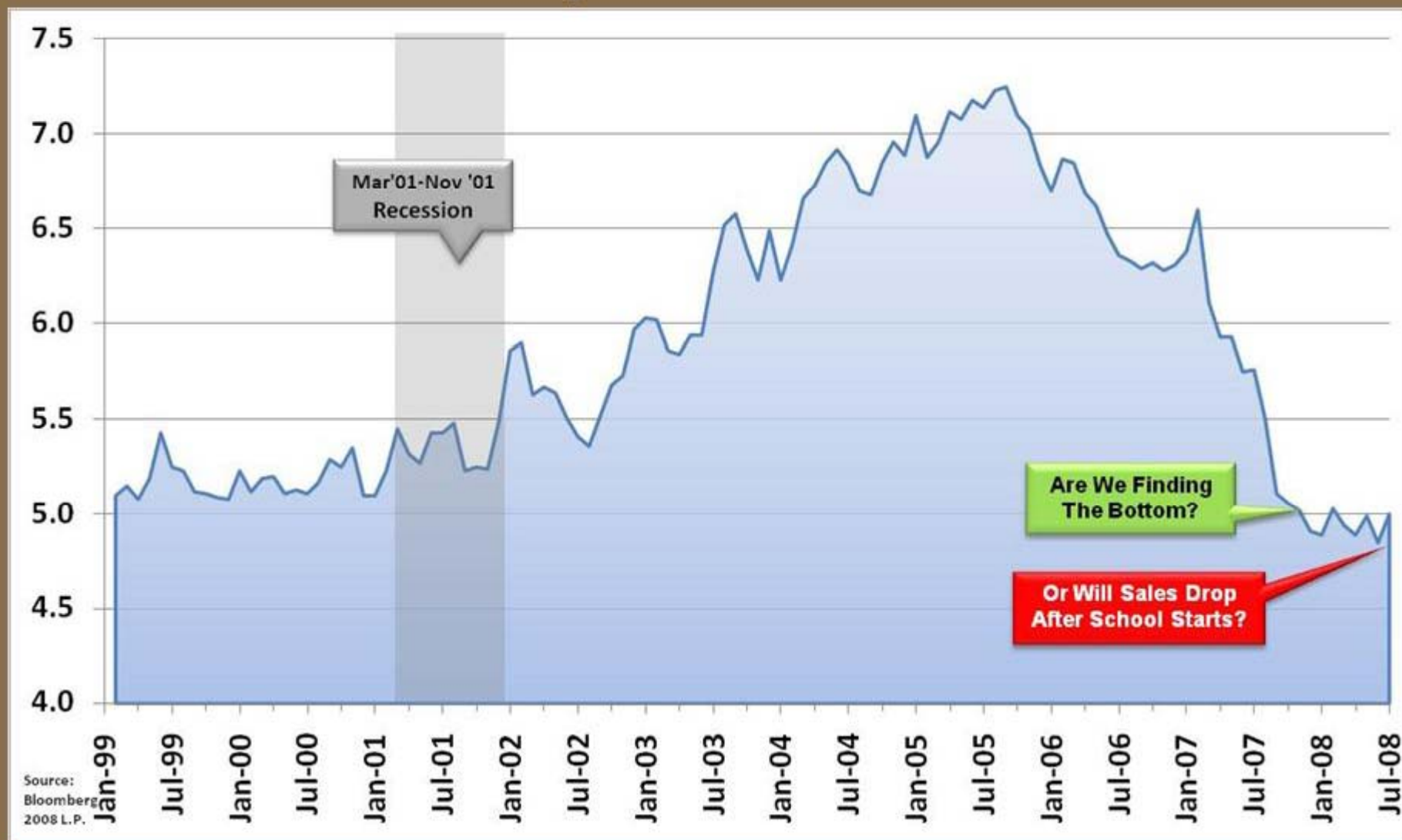
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National Existing Single Family Home Sales

Quarterly Data Feb 99 to Present



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Pg 13

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Arizona Sales of Existing Homes

Quarterly Data June 89 to Present



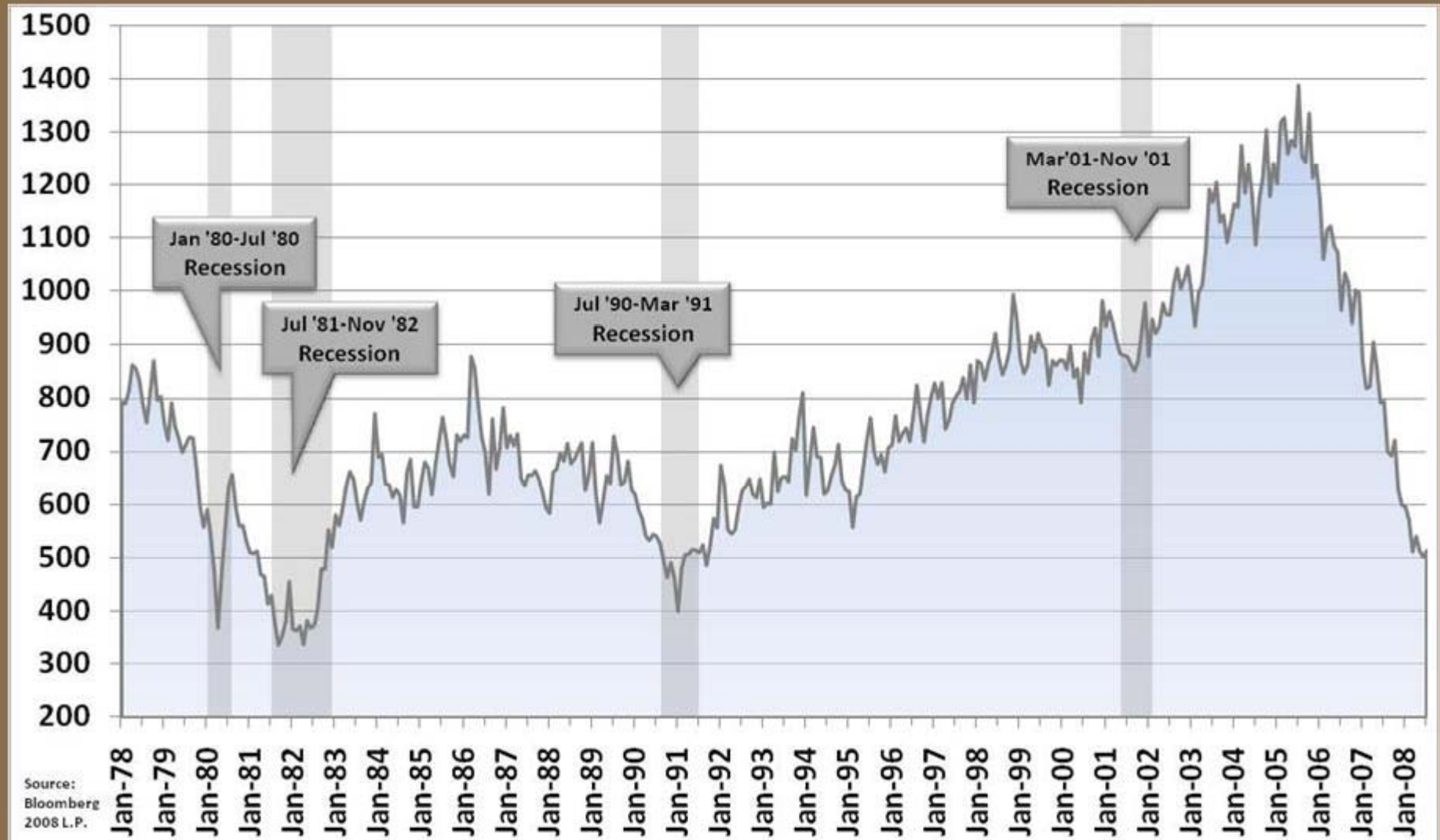
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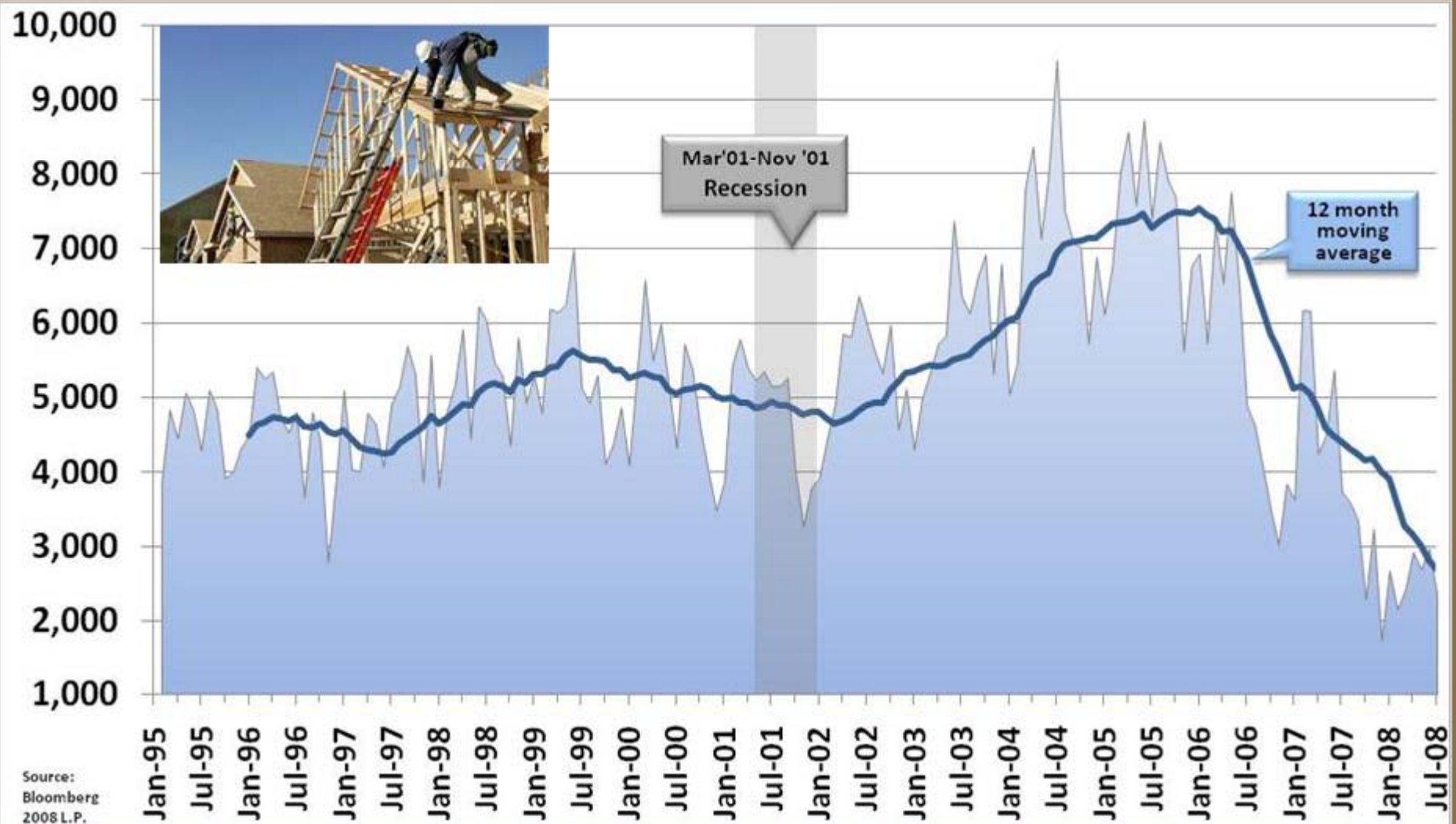
National New Single Family Homes Sold

January 1978 to Present



Arizona Housing Permits Still Lower

Total Monthly Arizona Residential Building Permits 1995 to present



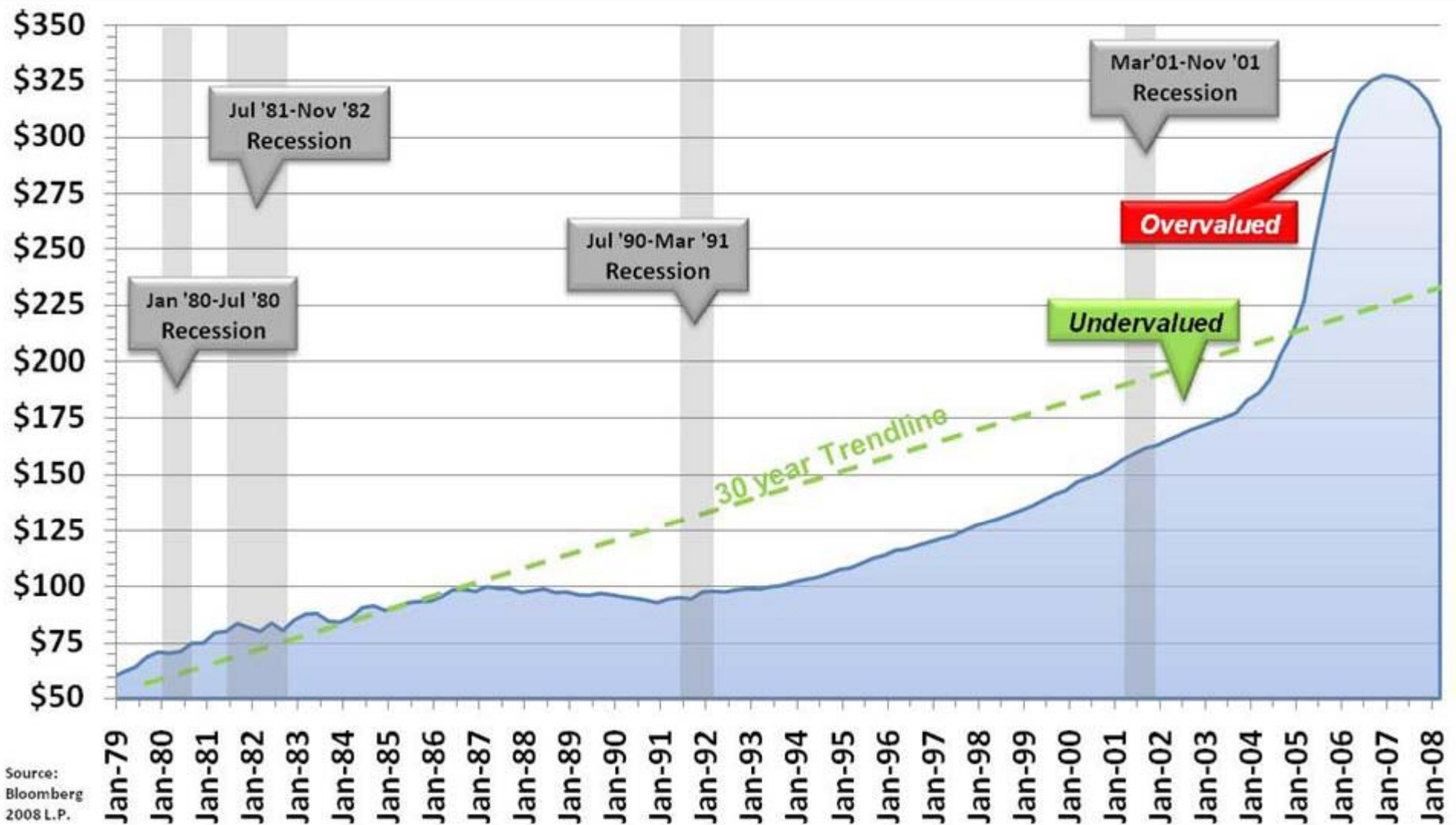
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AZ Conventional Mortgage Price Index for Valley



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Consumer Confidence

Consumers Worrying, Some Sweating



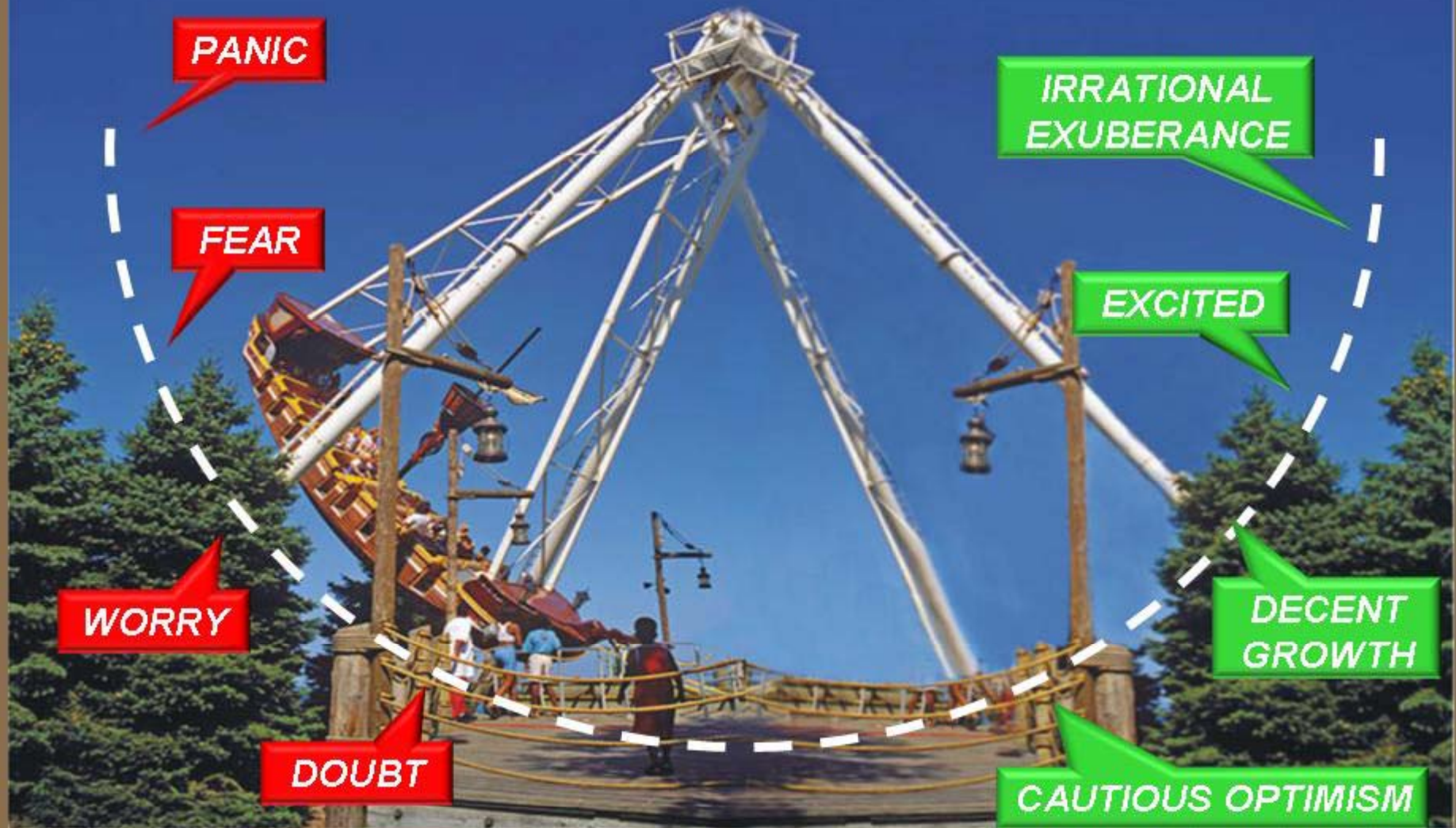
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Investor / Consumer Confidence Meter



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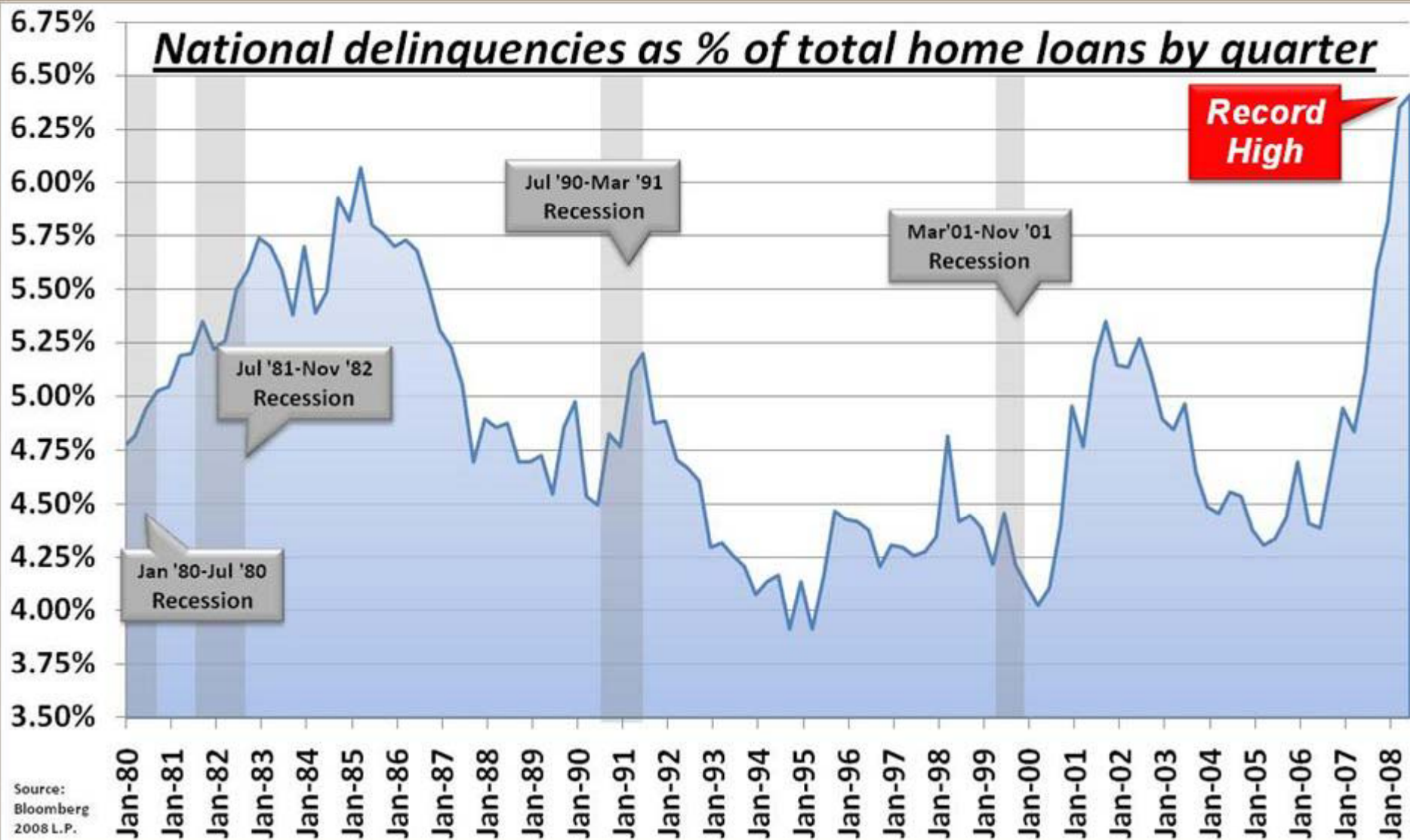
US Consumer Confidence Plummets



Housing: Nervous Neighbors



Consumers Behind on Mortgages



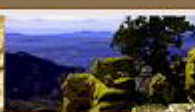
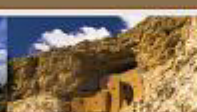
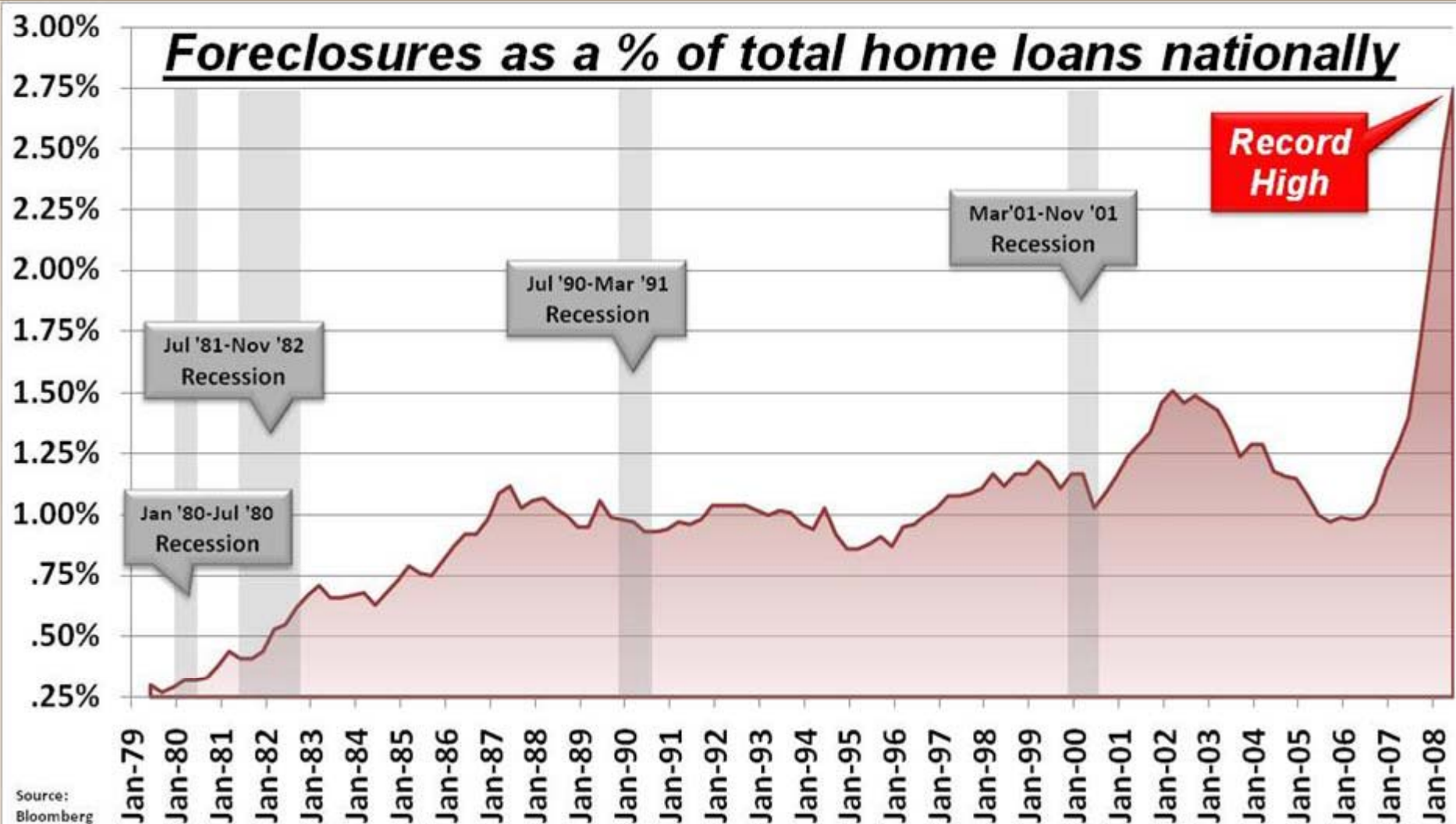
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Consumers Walking Away from Homes



Over 9% of US Mortgages Distressed



Source:
Bloomberg
2008 L.P.



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Sub-Prime In Arizona

<u>Arizona</u>	CY 2004	CY 2005	CY 2006
Number of high rate loans	62,057	158,460	154,689
% of all mortgages	16	27.4	32.5
Volume in millions	\$6,034	\$21,934	\$25,233
% of volume	10.7	21	27
State Rank	10	5	5

Source: WSJ, Federal Financial Institutions Examination Council, and U.S. H.U.D.



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Sub-Prime In Phoenix

<u>Phoenix</u>	CY 2004	CY 2005	CY 2006
Number of high rate loans	47,388	126,295	121,133
% of all mortgages	16.6	28.7	34.1
As a % of all sales	29.2	70.8	95.7
Volume in millions	\$4,660	\$18,016	\$20,422
% of volume	10.9	22.2	28.1
Metro Rank	5	4	4

Source: WSJ, Federal Financial Institutions Examination Council, and U.S. H.U.D.



Oil Prices at Record Highs Driving Consumer Confidence Lower Inflation Higher



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Oil Prices at Record Highs Now Dropping



Value of the US Dollar vs 6 Major Currencies

Fiscal YTD daily pricing shows Dollar plunge as fed cuts rates



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Oil is Priced In US Dollars

So....

Value
of
Dollar

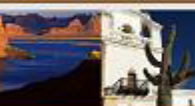


Oil per
Barrel

Oil Goes Up as the Dollar Goes Down

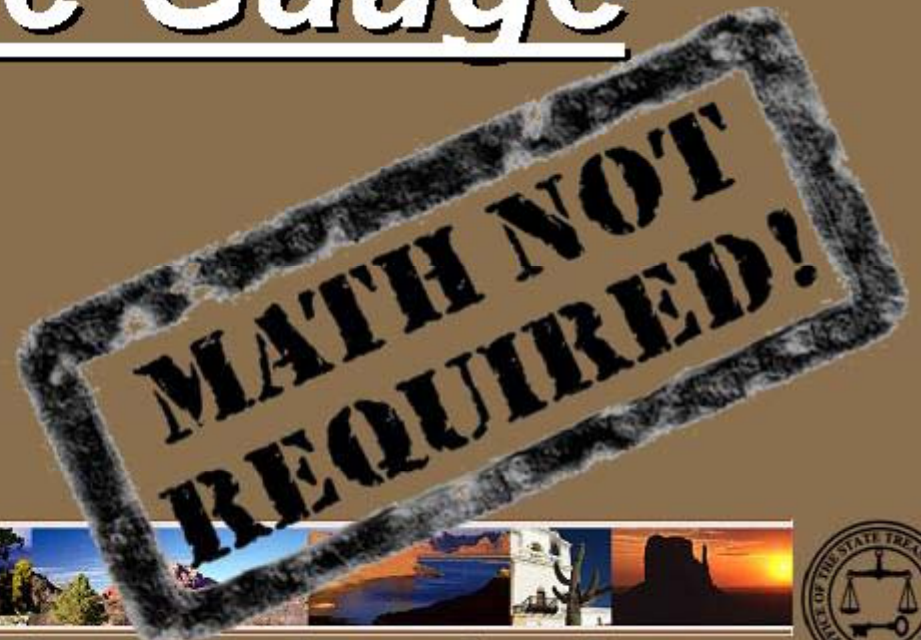


Oil Goes Up as the Dollar Goes Down

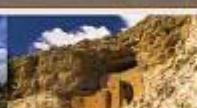




Quick and Easy *Economic Gauge*



Watch your local Starbucks



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As long as people are still buying
\$4 cups of coffee:
They still have disposable income



© GreenvilleDailyPhoto.com



Mild Recession



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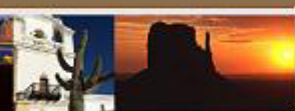
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Moderate to Severe Recession



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People can't buy a 99¢ cup of coffee:



Depression



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Economic Forecast



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The Economic Cycle

**The
Bubble
Bursts**

**The
Crash
Phase**

**The
1st
Turn**

**Hit
Bottom**

**The
Recovery
Begins**



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The National Economy & Financial Markets



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The Arizona Economy

The
Housing
Bubble
Bursts

Zero
Growth

The
Crash
Phase

1st Turn
End
2008

Hit
Bottom
End
2009

End of
2010

End of
2011

End of
2012



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Arizona Housing lags National Housing Market



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State Budget Update



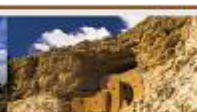
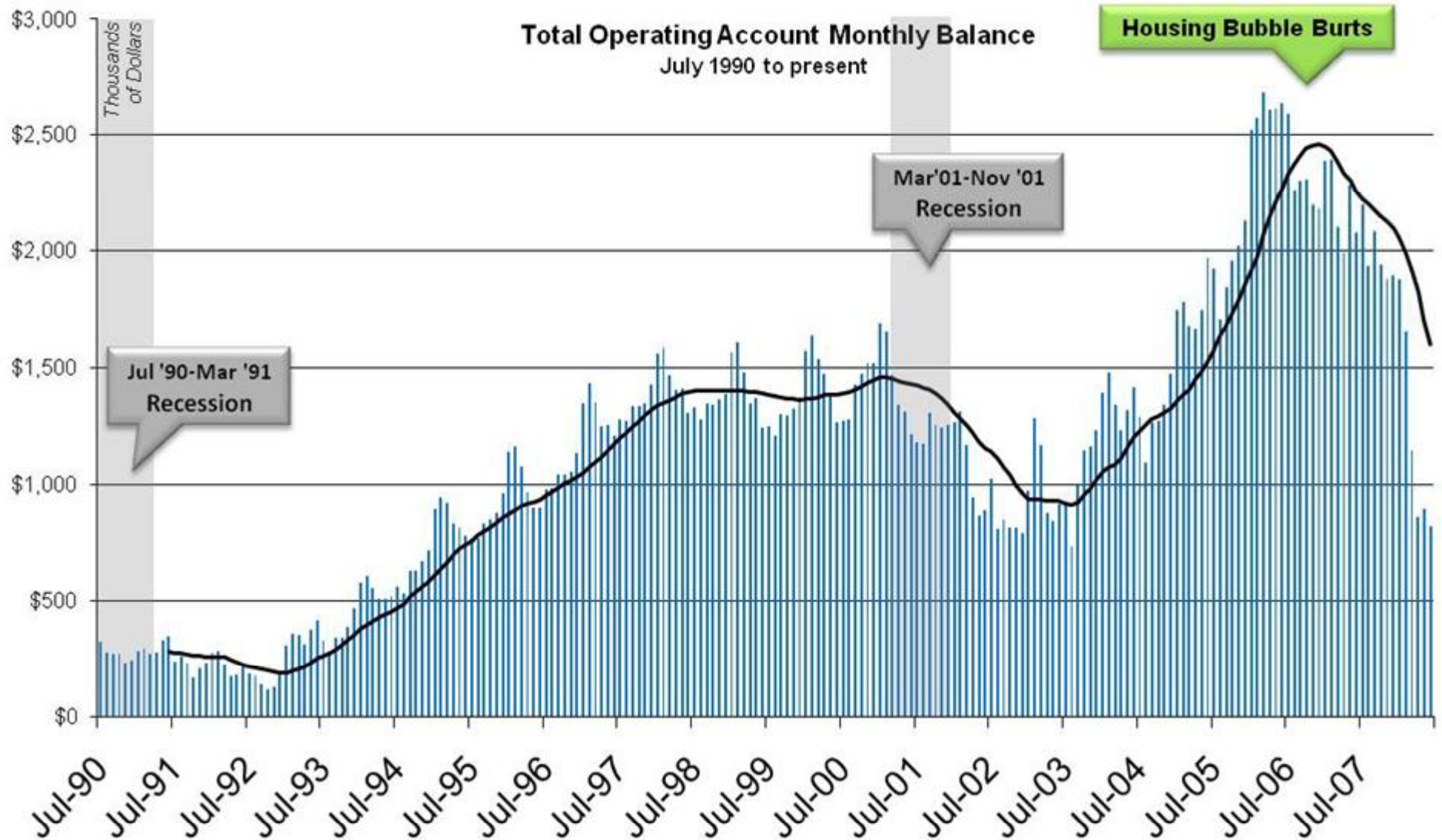
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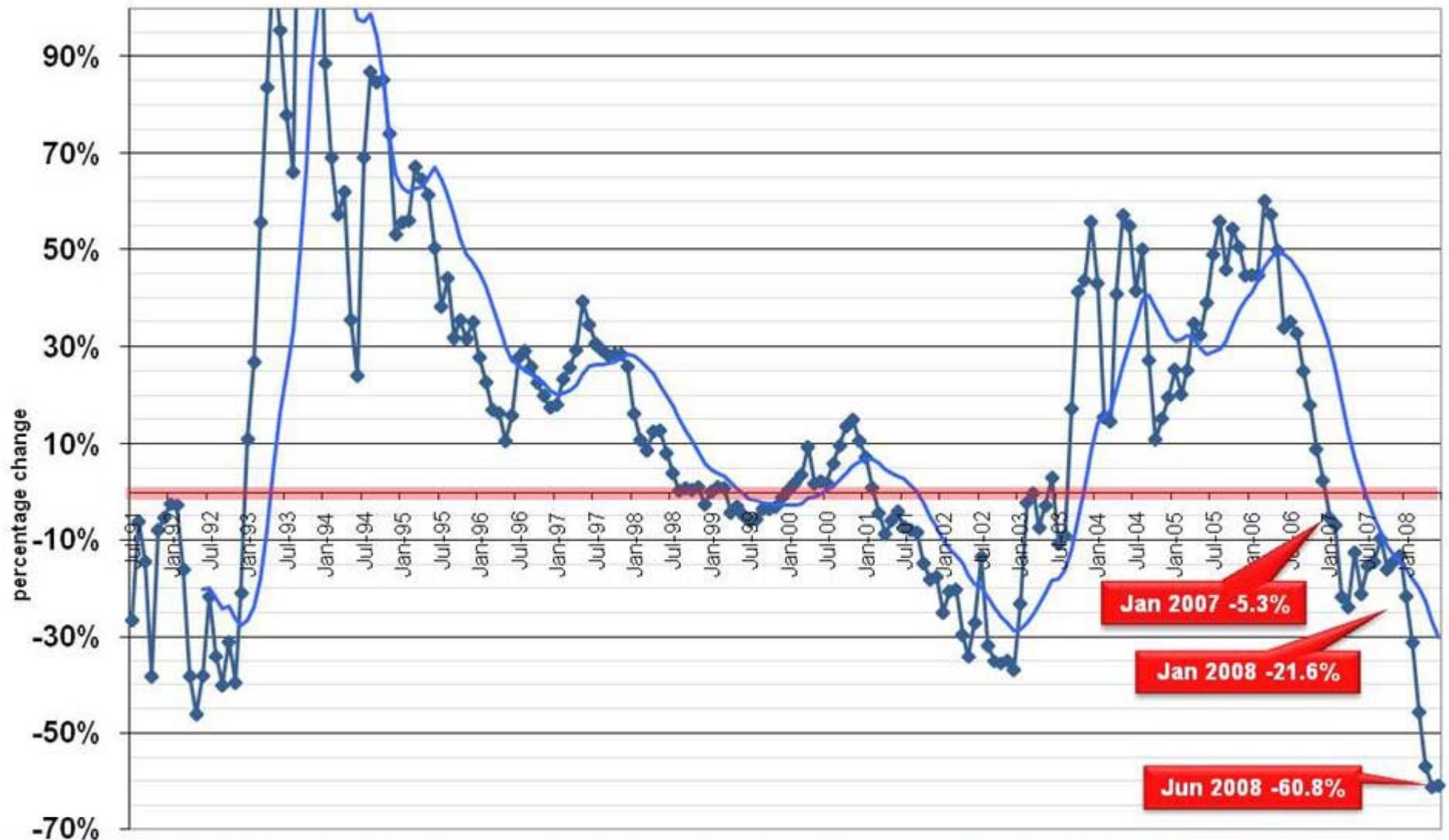


State Total Operating Account Average Monthly Balance July 1990 to present



State of Arizona Operating Cash Balance On A Downward Trend

Percent Change in Operating Account Balance



What went wrong?

'07 Budget
Was
Balanced

'07 spending
\$9.6 billion

'07 Revenues
\$9.7 Billion



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What went wrong?

Spending is off the rails '08 Budget

'08 spending
\$10.6 billion

'07 spending
\$9.6 billion

'07 Revenues
\$9.7 Billion

'08 Revenues
\$8.8 Billion



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What went wrong?

Spending is off the rails '08 Budget

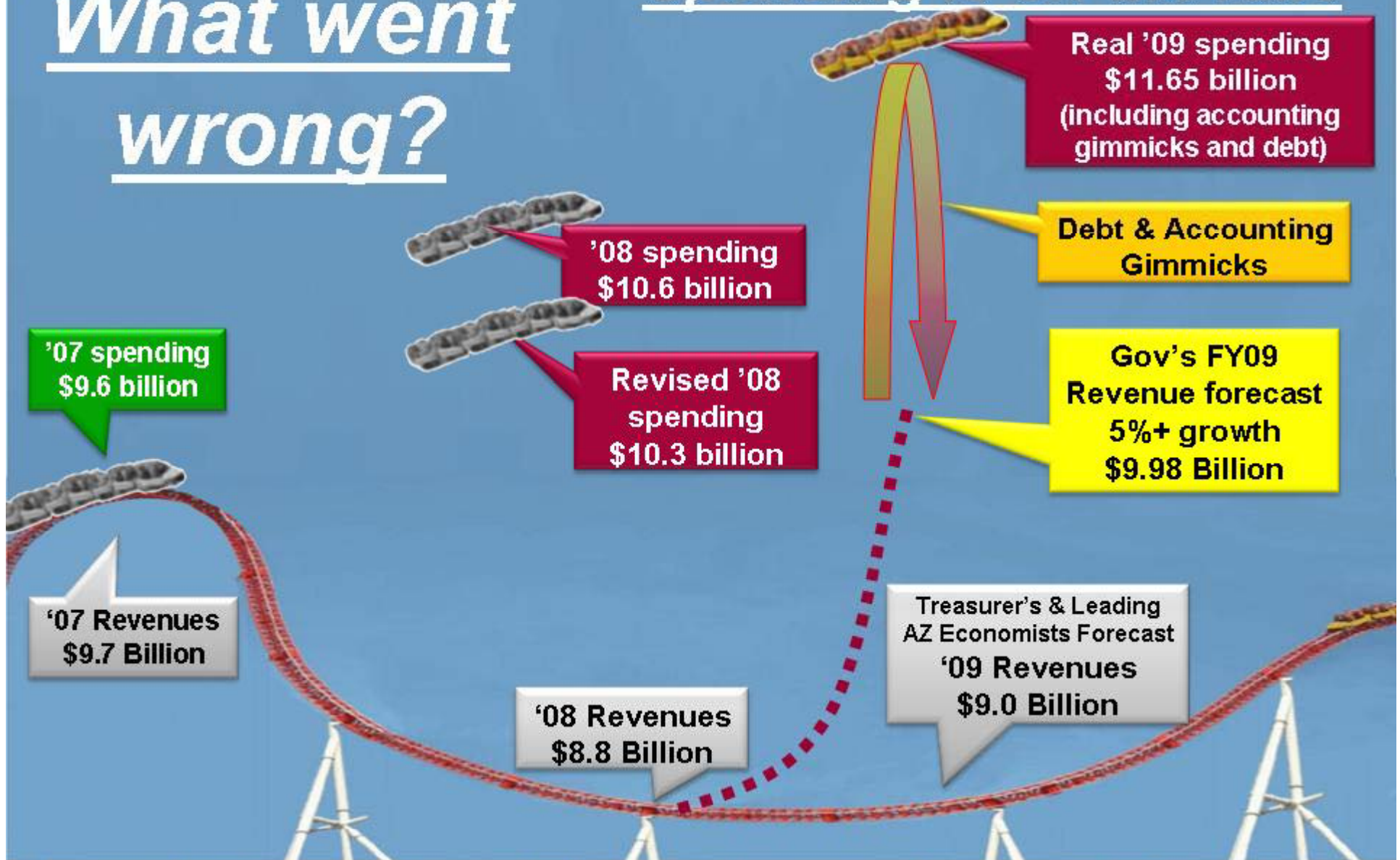


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What went wrong?

Spending is off the rails



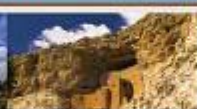
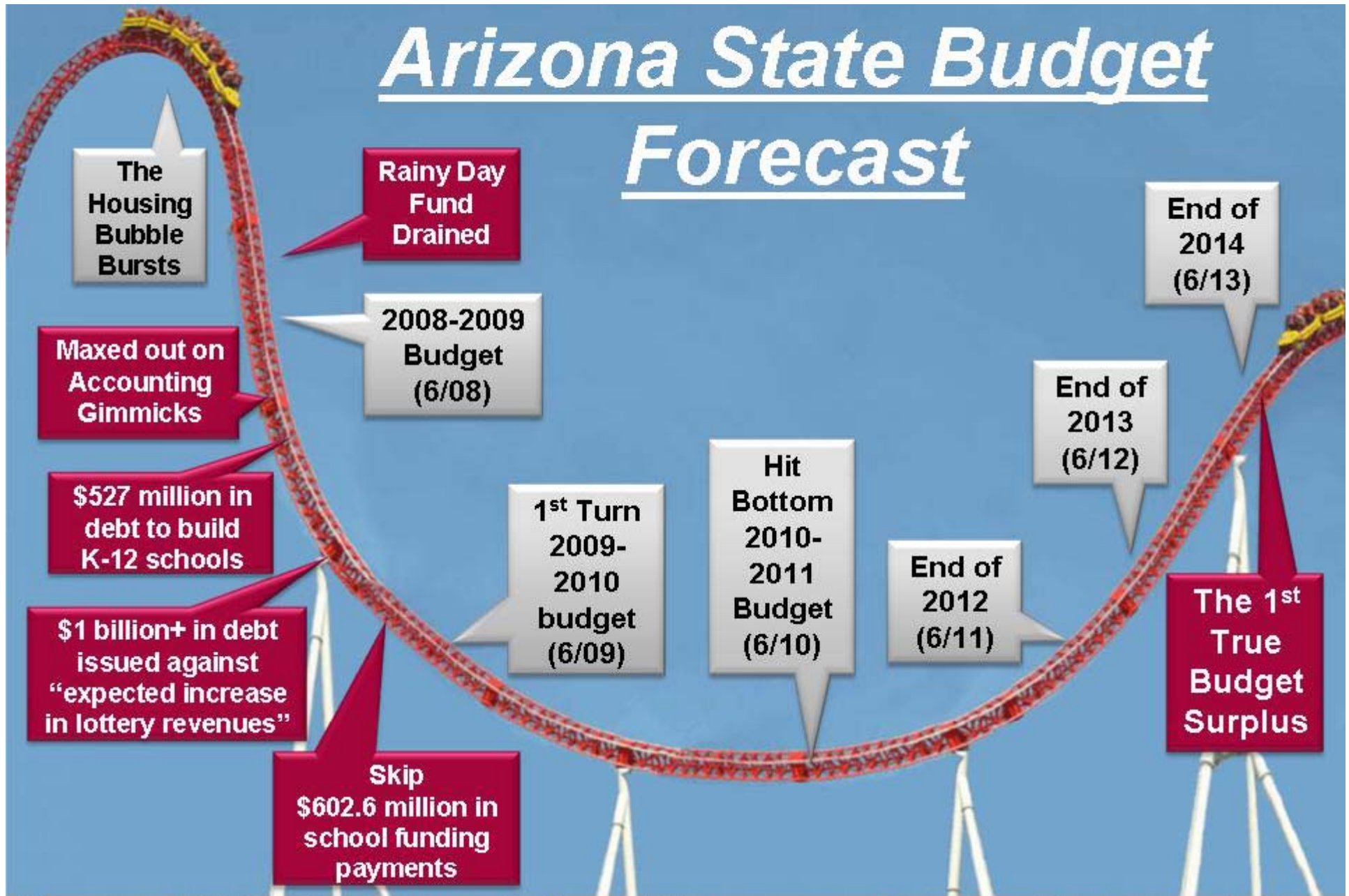
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Arizona State Budget Forecast



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So how do we get out of this mess?



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So how do we get out of this mess?

When you are in a hole, the first rule is to stop digging!



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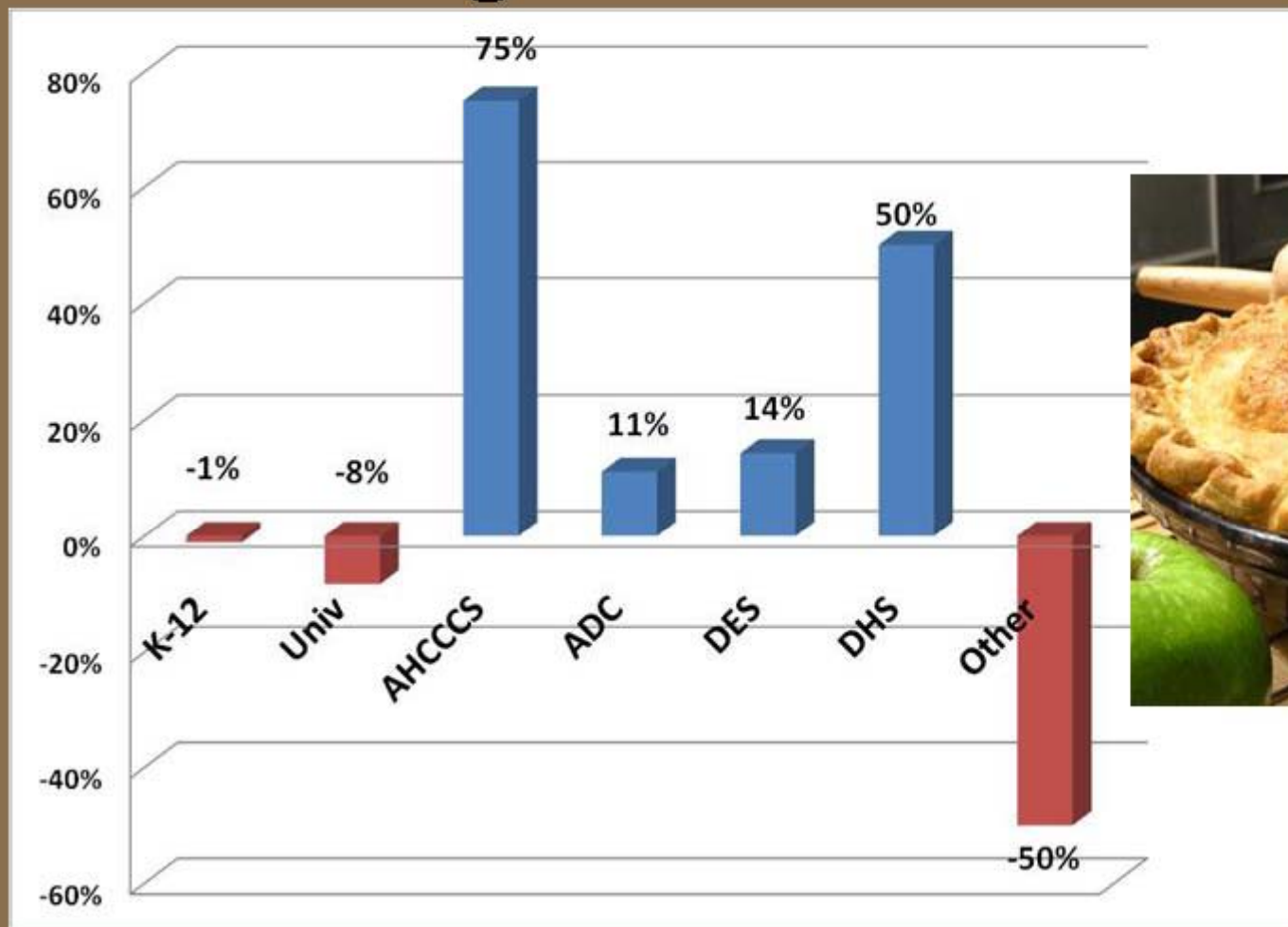
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Where is the money going?

% Change in “slice of the GF pie”



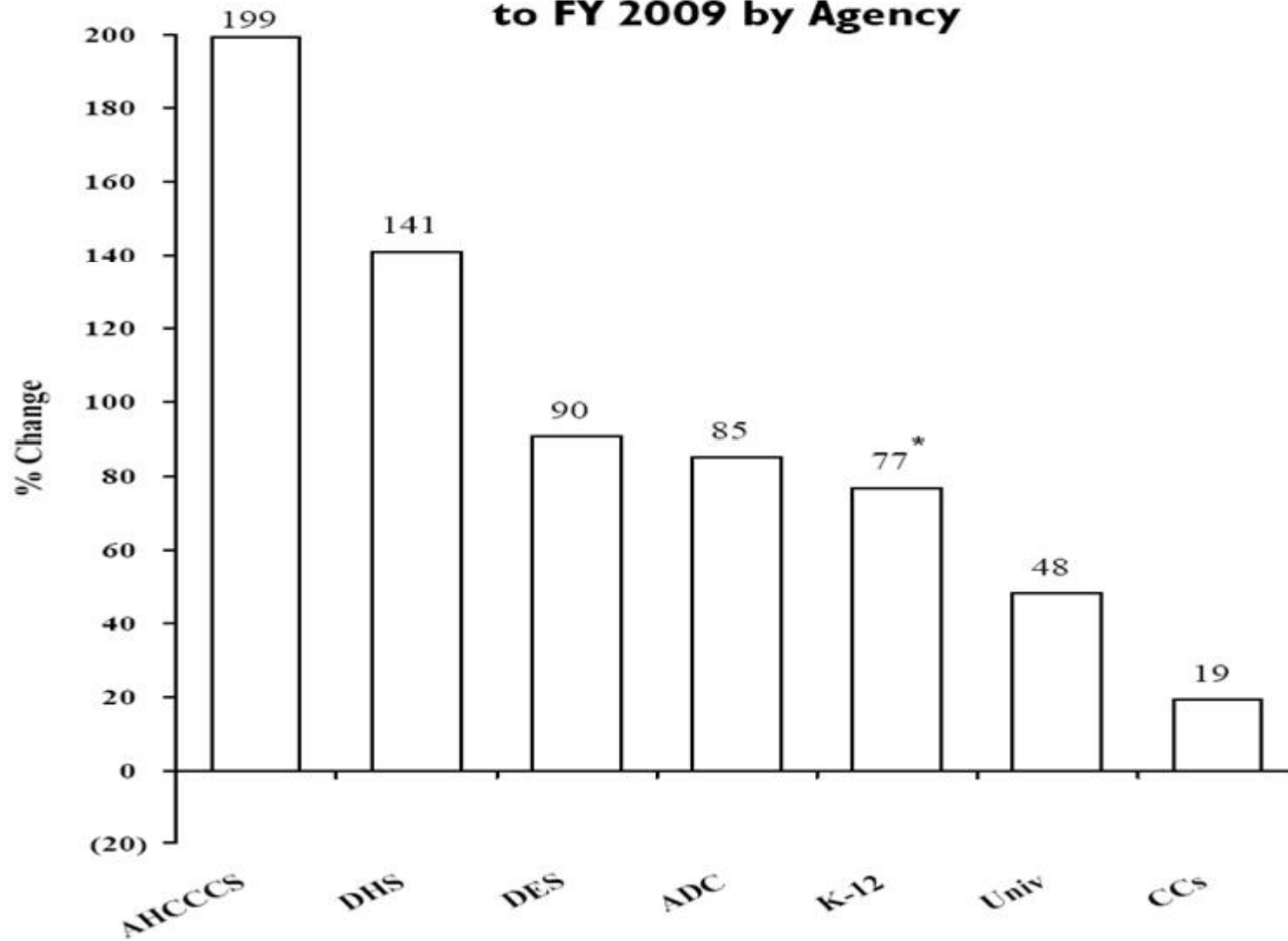
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Percent Change from FY 1999 to FY 2009 by Agency



* K-12 includes School Facilities Board spending.



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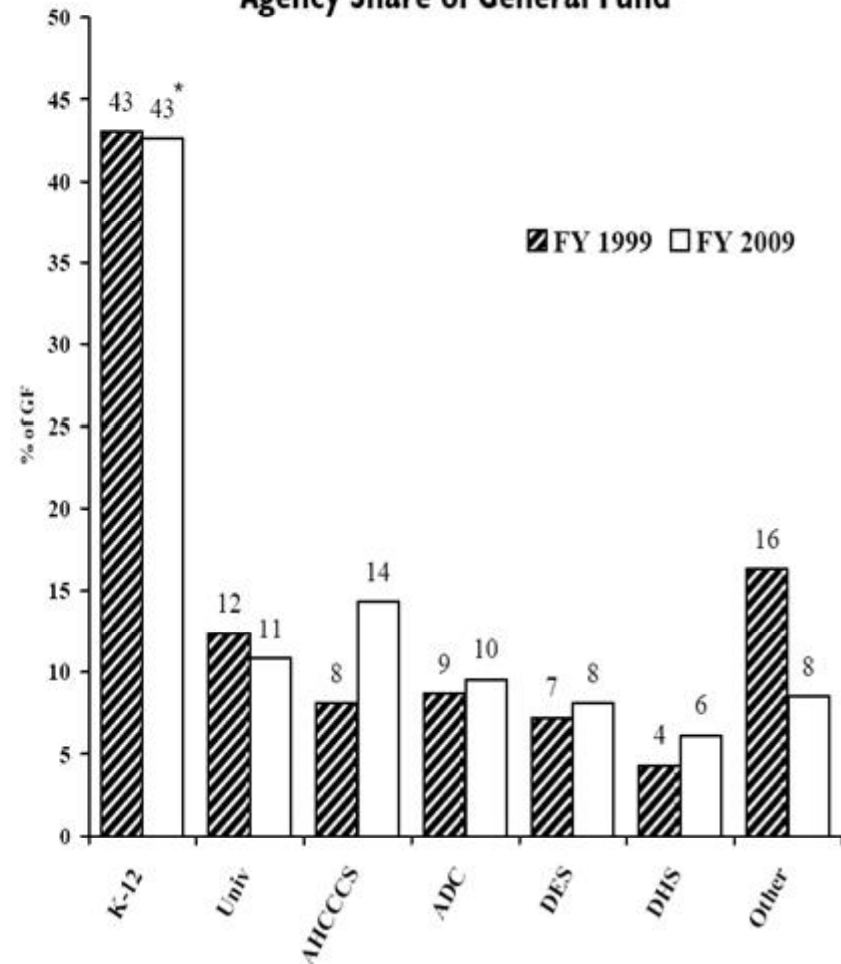


"THEN AND NOW" - FY 1999 vs. FY 2009 General Fund Spending

**Comparison of 9 Largest General Fund Operating Budgets
(\$ in Millions)**

	FY 99 Actuals	FY 09 Approp.	\$ Change FY 99-09	% Change FY 99-09
Education (K-12)	\$ 2,224.3	\$ 4,141.2	\$ 1,916.9	86.2
AHCCCS	476.5	1,425.3	948.8	199.1
Universities	728.9	1,080.4	351.5	48.2
Corrections	512.4	947.5	435.1	84.9
Economic Security	424.5	808.3	383.8	90.4
Health Services	253.9	611.5	357.6	140.8
School Facilities Board	310.9	101.2	(209.7)	NA
Public Safety	76.0	63.5	(12.5)	(16.4)
Community Colleges	124.1	147.7	23.6	19.0
Other	761.8	635.4	(126.4)	(16.6)
TOTAL	\$ 5,893.3	\$ 9,962.0	\$ 4,068.7	69.0%

Agency Share of General Fund



* K-12 includes School Facilities Board spending.

Source: JLBC



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*So how about some
good news?*



*I just saved a
bunch of money on
my car insurance!*



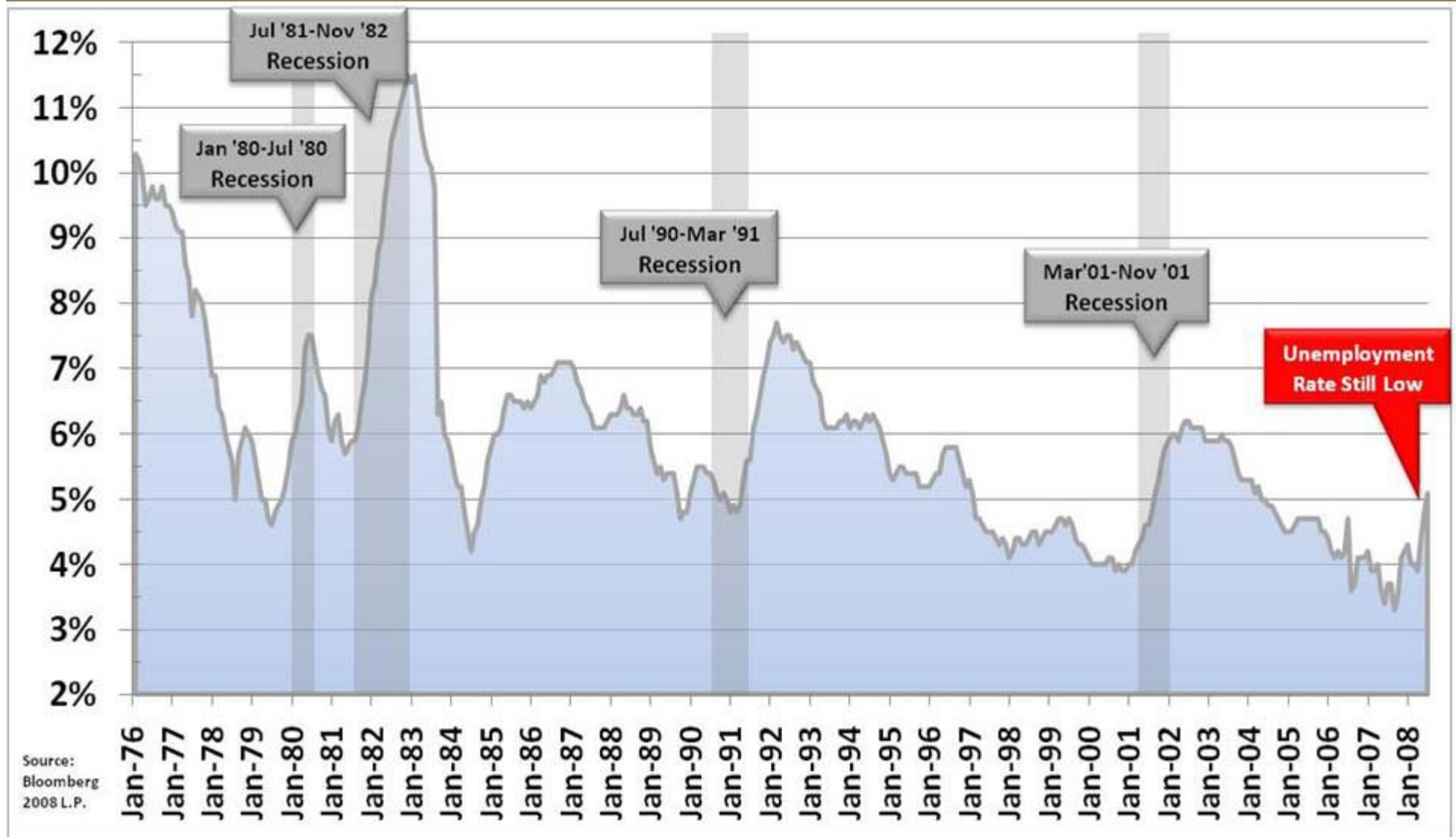
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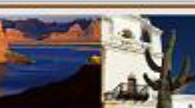
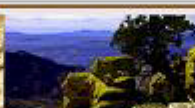
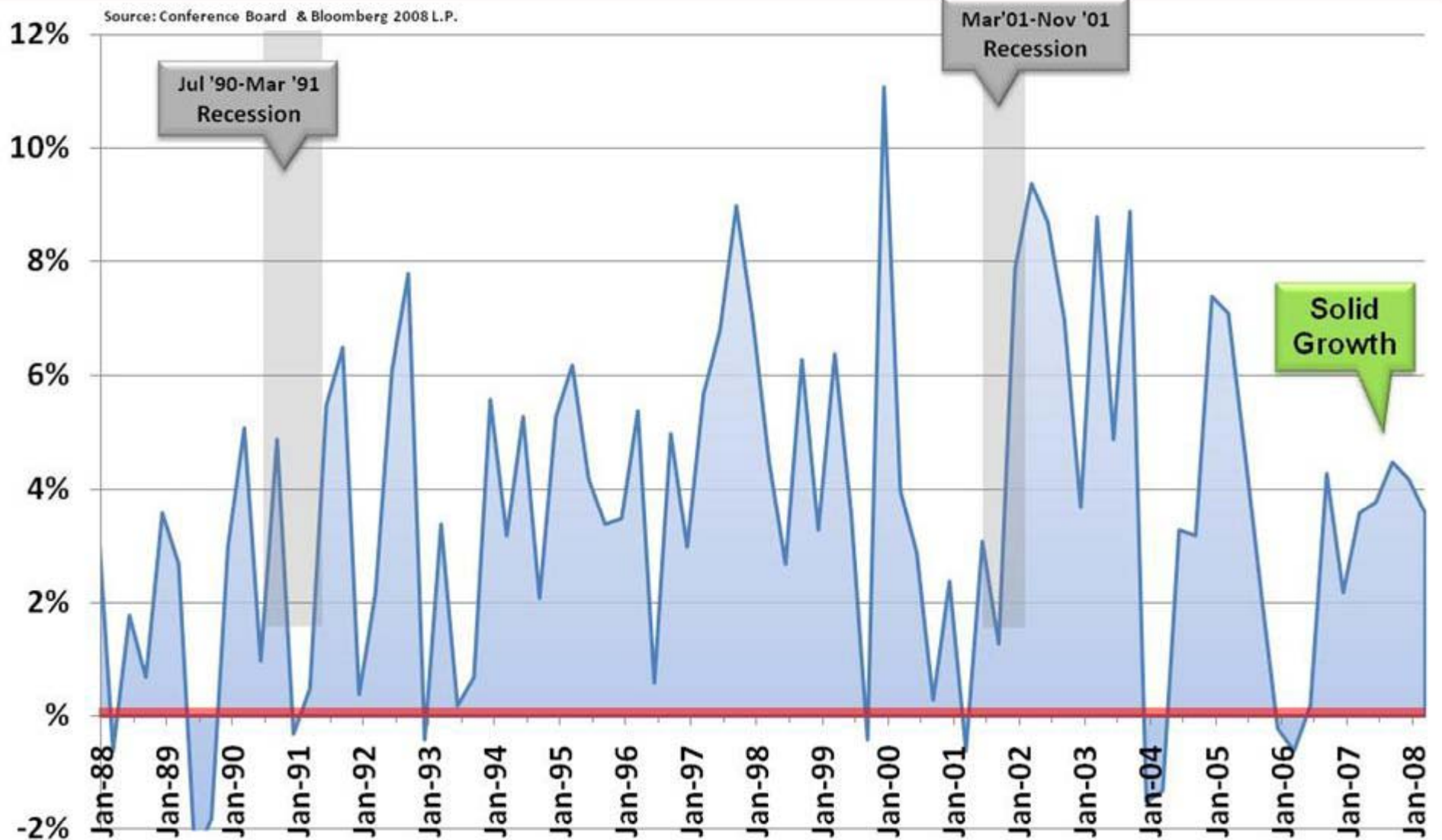
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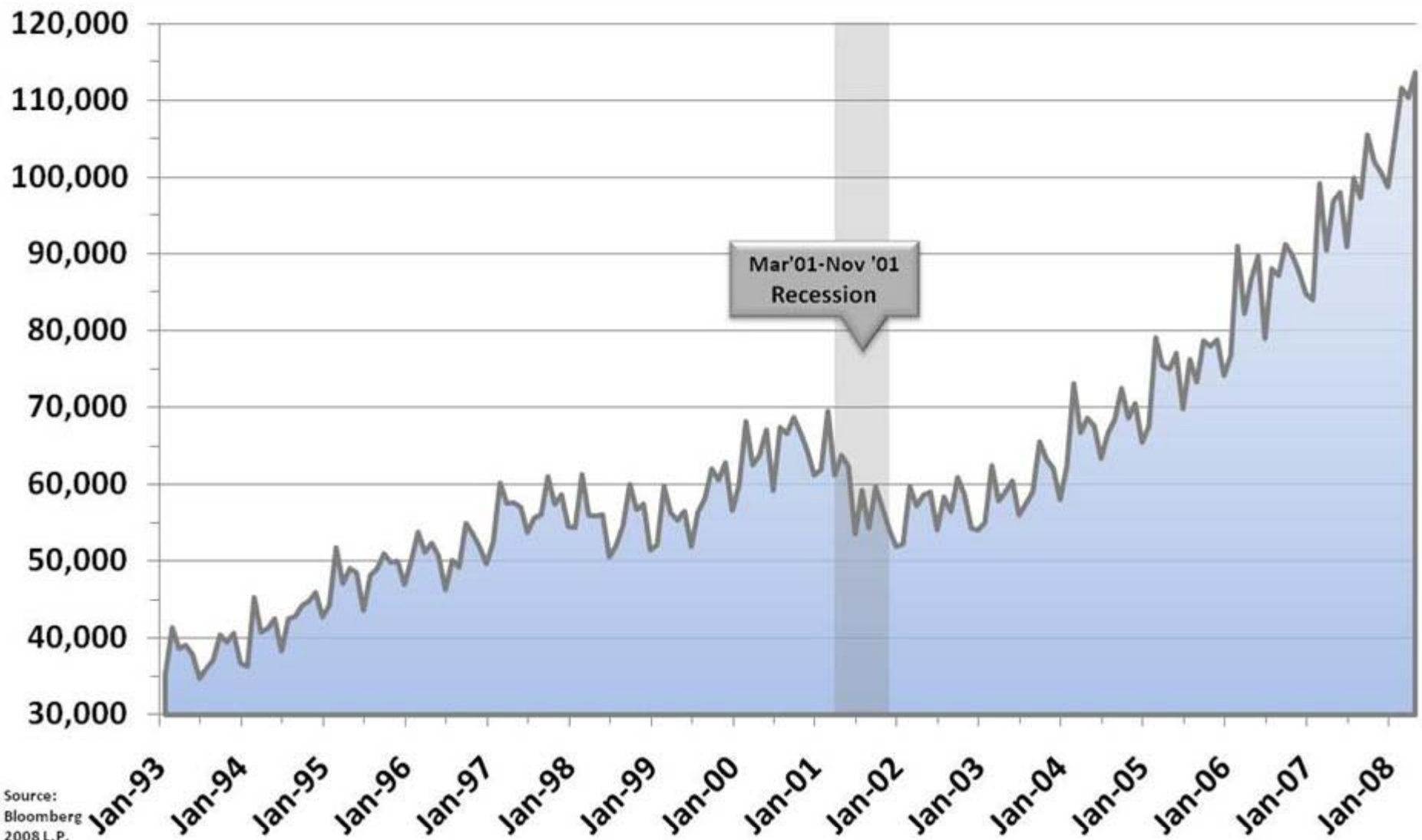
AZ Unemployment Rate Still Low



US Manufacturing Output Still Growing



US Exports Skyrocketing



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National Economy



Recession

Economic Growth



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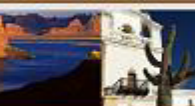
Questions?

THANK YOU

Next Quarterly Meeting:

Thursday, October 23, 2008 1:30pm

www.AzTreasury.gov



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